

1 common-line charges. We have margins built into state
2 carrier access rates. We have business and residence rates
3 that probably won't work long-term. And if anyone comes
4 into one of our exchanges and takes your five biggest
5 business customers, you better be able to deaverage your
6 rates within an exchange.

7 I think the market is going to solve most of those
8 questions. As I mentioned, my company is becoming a
9 competitive carrier in Missoula. I think that those actions
10 will start driving those price structures to cost, having
11 nothing to do with where the statutes are, but having simply
12 to do with how the market works.

13 MR. KENNARD: Well, putting the legal issue aside,
14 some incentive from the federal jurisdiction to accelerate
15 reform, wouldn't that be a good thing in accelerating a
16 state action to reform universal service?

17 MS. MANDEVILLE: I think there is incentive to
18 reform state charges, if the interstate charges change. It
19 is definitely not in Montana's best interest to have carrier
20 access rates that are two or three times as high as the
21 interstate rates. What that does is it drives carriers out
22 of the state, it drives carriers to be perhaps less than
23 totally accurate with their usage that they tell us is
24 intrastate versus interstate. And it creates some real
25 problems with us.

1 We cannot explain to people in Montana why it
2 costs more to call 90 miles across the state than it costs
3 to call New York. Those do create immediate customer
4 incentives to do things with the state structure. And we
5 are very sensitive to that.

6 We have tried to bring our carrier access rates
7 down to interstate levels, and have actually accomplished
8 that, to make sure that those kinds of arbitrage abilities
9 are not there.

10 MR. KENNARD: Do you have any sense of how long it
11 would take for a state like Montana to move from an implicit
12 subsidy system to an explicit subsidy system? It is a tough
13 question; I won't hold you to a precise --

14 MS. MANDEVILLE: It's a tough question. And
15 typically the states have not done as many transitions as
16 the federal jurisdiction has. I would hope that they would
17 look at transitions in this kind of a really major
18 restructuring. You know, theoretically, it could happen in
19 a year.

20 There are so many large winners and losers in a
21 total restructuring that I think the state will probably be
22 somewhat cautious and try and do it as competition develops.

23 MR. KENNARD: Anyone else care to comment?
24 Mr. Lubin?

25 MR. LUBIN: My reaction is that, when I read those

1 principles, for me, anyway, it was a paradigm shift, a
2 little bit. A little bit. And I saw potential merit. But
3 what was driving me, in terms of trying to figure out how
4 this would work, was the economic incentives.

5 And I was trying to figure out, is there a way to
6 create an economic incentive for the state to do what you
7 want, but not to gain the system that says, hey, this system
8 over here is going to try and figure out to do it in such a
9 way -- follow all the rules, follow all your criteria that
10 you laid out -- but do it in such a way to drive more costs
11 into the federal jurisdiction.

12 So the question -- and to me, it is kind of what
13 you just asked -- is, is there a way to create the economic
14 incentive to do what you suggested without creating the
15 opportunity to do more cost into the interstate.

16 The other thing I had observed, and it's why,
17 quite candidly, I think, at least from my perspective, there
18 is some, it's worth investigating, is that there are some
19 states that are looking at this very question. And when
20 they look at it, they are looking at it -- and maybe it's
21 because they have one unbundled loop in the state, I don't
22 know why. But they're looking at it, and saying, okay, I'll
23 use these proxy tools. And then they look at the revenue
24 generated. And what they say is, you know what, I don't
25 need a universal service. I've got enough here without

1 having explicit fund. And by the way, some of the states do
2 that, and don't include access. Some do include access.

3 So my point is, that's an interesting one, because
4 that state may come along and say, hey, I don't need a lot
5 of dollars, or maybe it's very small. And if that state
6 were to do that, what would they do at the federal level,
7 because that would assume that they don't need anything at
8 the federal level.

9 But anyway, my bottom line to you is, you know,
10 what we've been trying to do is take the principles and say,
11 is there a way to create an economic incentive to eliminate
12 the concern that I articulated.

13 MR. KENNARD: Mr. Tauke.

14 MR. TAUKE: First, I do think that you do have the
15 ability to place some conditions on the distribution of
16 dollars that would come from a federal fund to states. And
17 I think, as a matter of judgment, you would probably want to
18 give the states some time to react to that. So I'm not sure
19 that you should require them to meet it immediately.

20 But one of the reasons that you may want to
21 consider doing that is because I think there is also a need
22 to have a general sense among the public that this is a fair
23 system. And whether it is accurate or not, I think there is
24 some perception now that the universal service system isn't
25 fair.

1 In some of our "lowest-cost" states, in places
2 like Baltimore and Buffalo and Boston, we have telephone
3 rates for basic telephone service that are higher than many
4 of the rates mentioned this morning, that are -- and we are,
5 in essence, asking our customers to pay a little more to
6 send the money to those places that are now paying
7 substantially less.

8 Now, part of the reason for that is because the
9 way in which prices have been structured. But what has been
10 happening in our larger, lower-cost, and ironically, or I
11 should say not surprisingly more competitive states, is that
12 the access rates have been coming down. And as we go to
13 one-plus dialing, the intrastate toll rates are coming down.
14 And that has meant there has been some relative increase in
15 the dial tone rates.

16 But it is hard to explain to people in Boston who
17 are paying \$19 a month, or Buffalo who are paying \$30 a
18 month for telephone service, why it is that they are going
19 to send more or pay more in order to send money to people
20 who are paying eight or nine dollars a month for telephone
21 service.

22 And so I think having some, you know, effort here
23 to encourage the -- a different pricing model in some cases,
24 or taking other steps would be helpful in -- subsidies out
25 of the rates, and to move this toward the competitive model.

1 I am very uncertain. As a matter of fact, I think I would
2 be almost oppositional to providing some sort of a federal
3 hurdle that they must go through if that's what the
4 suggestion is, similar to what is being done on a 271 basis
5 today. And I'm not sure exactly, you know, I don't have all
6 the specifics exactly of what's behind your eight
7 principles.

8 But to me, qualifications for added federal
9 support I think ought to be clear to the states today. It
10 ought to be a national fund today. And we ought not set up
11 an additional federal process to have states go through to
12 qualify for that, for that support.

13 MR. KENNARD: Well, I see that we have gone almost
14 an hour over our time this morning. And I think that that's
15 a result of the -- not only how interesting these issues
16 are, but the quality of the panelist we had today.

17 So I wanted to thank you all for being here today.
18 And unless there are any closing comments from the bench --
19 okay, very good.

20 MS. TRISTANI: I talked at the beginning of how
21 wonderful, how important universal service is. And how this
22 country is in an enviable position.

23 We have 94-percent telephone penetration. You all
24 know that. But you know, we're not there yet. In my state
25 of New Mexico, it's about 87 percent. In Puerto Rico, which

1 is a territory in part of the United States, it's about 74
2 percent. And those of you that know the states that have
3 large Native American reservations, know that on some of
4 their reservations it varies between 30 and 50 percent.

5 So we're not there yet, with universal service for
6 all Americans.

7 I wanted to remind us all of that. And stress
8 again that I think it's very, very, very critical that this
9 Commission makes sure that whatever we do at the end of the
10 day doesn't make any American get off the network.

11 Thank you.

12 MR. KENNARD: Thank you, Commissioner. Well said.
13 With that, I'd like to again thank our panelists, and also
14 thank the hard-working FCC staff that put together this
15 panel today. Lisa Gelb, Melissa Waxman, Jonathan Raydin,
16 Cheryl Todd, Chuck Keller, Maureen Peritino, Rivera
17 Marshall, Pam Gallant, Macauley Sallas, and of course
18 Richard Metzger and Bob Pepper. Thank you all very much for
19 being here.

20 And these issues obviously are of great importance
21 to this Commission and the country. And you have my
22 commitment that we will continue to focus on them and get
23 them resolved very, very quickly. Thank you.

24 (Whereupon, at 11:53 a.m., the hearing was
25 concluded.)

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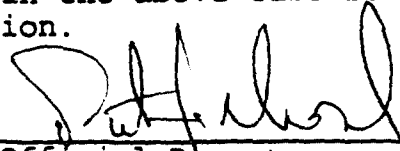
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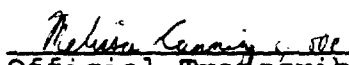
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